



Feature Article

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Rethinking Your Budget

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In the "new normal" of today's economy, there is increasing need for organizations to refocus on their budget development process. In the past it may have been feasible to look forward on only a 12 month horizon when matching dollars to your organization's planned activities. However, to address the challenges of the economic paradigm as we now know it, and to ensure sustainability in the long-term, organizations must work to broaden the scope of their financial planning process. Below are some steps that you may want to incorporate as you lead your organization through a more comprehensive financial planning process.

Use the Balance Sheet to assess the organization's financial position

Before beginning the budget development process, step back and take time to understand, from a financial perspective, where your organization has been, where it is now, and what the goals are for the future. Begin by analyzing and understanding the Balance Sheet (also referred to as the Statement of Financial Position) which is the statement that best captures a snapshot of the organization's financial health at a point in time.

In analyzing the Balance Sheet, take a look at each asset category and determine the trends over the past three to five years, with a special focus on liquidity.

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Use the balance sheet to assess the organization's financial position

Prioritize all activities

Develop a three to five year business plan

Put the business plan into action

What has been the trend in cash?

What is the rate of collection on receivables?

Do temporarily restricted net assets best support the organization's core programs?



Analyze the organization's historical reliance on debt, as well as its ability to meet current liabilities. Finally, gain an understanding of the makeup of the unrestricted net asset balance:

How liquid are the unrestricted net assets?

What percentage of those assets are tied up in a building or other fixed assets?

How has the unrestricted net asset balance been trending over time?

Think of the *liquid* portion of the unrestricted net asset balance as an organization's operating reserve – if this balance is low and trending downward, what will the organization have to rely on in a future crisis?

Ask yourself: if past trends continue into the future, what will the impact be? Will we run out of cash? Will we deplete our unrestricted reserves? **Based on your analysis, determine what long- and short-term strategies need to be put in place** – from a financial planning perspective – to course correct.

Prioritize all activities

Now that you understand the financial reality of your organization from a Balance Sheet perspective, take a look at each activity.

How does each program align with the mission?

Which programs are generating revenue?

Which are draining resources?

Determine whether the organization can continue to support programs that are running significantly in the red, especially if they are not core to the organization's mission.

In a "zero-based" budgeting exercise, build up your organization from scratch activity by activity, prioritizing those programs that make the most sense from both a mission-based and financial perspective, and excluding those that don't.



Develop a three to five year business plan

Taking into consideration the analysis the organization's Balance Sheet and the assessment of program activities, begin to build a long-term strategy. Develop a business plan that looks forward at least two-three years and incorporates strategies that will ensure the sustainability of your organization.

Through your financial and programmatic analysis, it may become clear that you need to incorporate some of the following strategies into your long-term plan:

- Build up an operating reserve by generating unrestricted surpluses each year
- Diversify revenue streams to increase the reliability of the organization's revenue base
- If possible, move away from government or other sources of funding that induce recurring cash flow issues
- Expand program services in areas that scored high in the mission-match and financial sustainability criteria

Once in place, ensure plans for developing reserves are incorporated into the business plan, if necessary. Define a plan to maintain those reserves so that they provide an adequate safety net for the organization to weather future economic storms. Finally, develop guidelines around the use of reserves so that there is clarity around what circumstances warrant their use, should there be another crisis looming over the horizon.

Put the business plan into action

A long-term business plan must be put into action year by year, month by month. Begin by drafting the operating budget for next year. Each annual operating plan should reflect the implementation of a portion of the long-term business plan. As each new fiscal year begins, progress against that annual budget, which is a piece of the long-term business plan, should be carefully monitored monthly.

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